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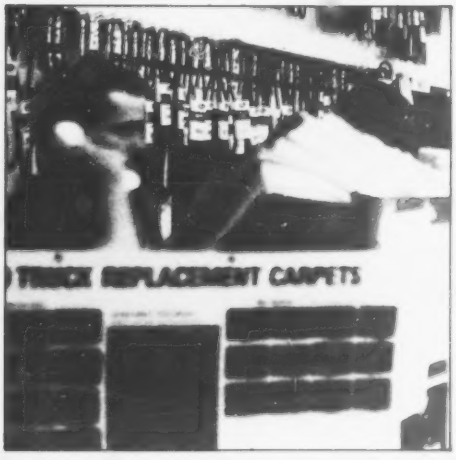

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JESSE H. NEAL AWARD-WINNING PUBLICATION FIVE OUT OF EIGHT YEARS

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ford to stock all the hard parts SKUs which are now required to be a factor in that part of the business. So, some chains may reduce their participation in the hard parts business and others may seek alliances with distributors who can provide hot shot delivery on needed items. Today, most WDs are very loath to supply chain stores. But the day before yesterday many manufacturers were loath to sell any branded parts to retail chains. So it will be interesting to see what happens tomorrow.

Finally there's market concentration. Essentially, retail chains have grown either by rapidly opening new stores (AutoZone is the outstanding example of this approach) or, by acquiring existing chains—like Northern Automotive. At the same time, partly in response to concentrations of purchasing power among retail chains we have seen movements toward consolidation of purchasing power among jobbers and WDs. There are future signs and signal of merging channels of distribution.

There are some ironies in this situation. While the number of corporate owners have declined, the rapid expansion in the number of outlets means that some markets are probably overstored. At the same time, these many small stores are not capable of keeping up with the increases in the numbers of SKUs.

We can anticipate a number of changes: Closing many redundant small stores; more emphasis on positioning to differentiate a chain from its competitors; and, new approaches to warehousing and delivering slower moving hard parts.

It will be interesting! And we will be here to assist you in making sense of these changes. ■

CONFERENCES

Who Will Train Mechanics To Keep Up With Technology?

Two questions reverberated around the Frost & Sullivan Automotive Aftermarket Conference held recently in Denver: Who will train mechanics to keep up with the new technologies? And how will they do it?

Tom Golden, director of training at Brake Parts Inc., McHenry, IL, noted that the master cylinder on a new Thunderbird cost $2,300 due to ABS systems. "And that's not all," Golden said. "The same system on a Chrysler costs $4,000; a Mercedes is a little cheaper, it's only $1,100. The average American technician has a ninth grade education and reads at a sixth grade level. Now, do you want that guy fooling around with your master cyinder? The average technician doesn't know anything about electronics and he doesn't want to know. The NAPA technical hotline at our facility gets 6,700 calls a month because there's nowhere else to get the information. If one mechanic in each distributorship screws up one master cylinder every three days; over two years it will cost the manufacturer $8 million."

Simply listening to Peter Fichtner, manager of technical services for Robert Bosch Inc., Broadview, IL on fuel injection; Robert Parmann, vice president of engineering at Walker Manufacturing, Glass Lake, MI on exhaust systems; Jeff King, director of marketing at the Gabriel Ride Control Division of Arvin Industries, Carol Stream, IL on ride control systems; and Golden on ABS was a scary prospect when you realize new vehicle technologies in all these areas will hit the aftermarket in the next few years.

For example, Fichtner reviewed Bosch fuel injection systems in depth. Then he was asked who can do the repair work? "470 Bosch specialists," Fichtner said, half joking, referring to the authorized repair shops Bosch has licensed in the U.S.

But later he added that "DIY is dwindling. It's fairly high tech now and will be more so in the future. I don't think the DIYer can work on fuel injection and controls. Maybe plugs and filters."

Although Parmann thought DIYers would have little trouble with exhaust, the others found DIYers in trouble. King said electronic suspensions could be replaced by DIYers: "If they can install a radar detector, they can do it today. But I don't believe DIYers will be able to handle the new adaptive suspensions with all the sensors." Golden said DIYers could handle pads and shoes, "but, will he screw up the sensors? That's a delicate balance in ABS. I don't think I'd like to see a DIYer doing ABS work."

While the panelists did not feel confident about DIYers, the conference as a whole did not feel confident about mechanics being able to do the work. For example, Bill Sauer, president of Autotech, Roseville, MN, surveyed mechanics at more than 500 stations over the past two years and found very disturbing results. "I ask them to be their own best judge. How good are you at working on computer cars? They usually give me an eight or a nine. I then ask them to explain how an oxygen sensor works. I don't care about the zirconium dioxide stuff, just tell me what happens? Does it change voltage? Does it produce voltage? What is it doing there in the manifold? And those that say they are eights and nines tell me it measures hydrocarbons. Some tell me it measures heat. I get all sorts of strange things. This is the heart of a computer system and the technicians that say they are eights, nines, and tens can't even tell me that an oxygen sensor gives off voltage, let alone what type of voltage. I even give them credit if they say minivolts instead of millivolts. Only 16% can answer this question to any satisfaction at all."

And, Sauer noted, the lack of knowledge does not simply apply to newer parts. "One question I ask is, what purpose does the EGR valve serve? EGR valves have been with us for twenty years now. I wish I had the time to share some of the answers I get to this question. There is one, however, that I must share with you. A mechanic told me, 'The EGR valve takes the exhaust gas when the engine is cold and recirculates it back through the intake and then when the engine is warm, the EGR opens and allows the exhaust gas to go out through the exhaust system.' I asked why the engineers would do that. He replied, 'So the rich cold exhaust doesn't blow up the muffler.'

"Is a question of this type a theory one," Sauer asked, "or does it really help fix cars? In my opinion, if one does not understand theory of operation, one has a heck of a time diagnosing what is wrong. If you don't understand how an EGR valve is supposed to work, you do not understand the drivability problems it can cause. Of the hundreds of techs I have asked that question, only 18% can explain it correctly."

One big problem is that there is a lot of information that mechanics have to process. Rod Georgiu, president of Alldata Corporation, Elk Grove, CA, said that "the driving force behind computerizing automotive repair information is the vast expansion of the amount of information needed to fix all cars on the road."

According to Georgiu, the data base has expanded from:

- 1967: 5,000 pages
- 1984: 500,000 pages
- 1991: 1,200,000 pages

and is expanding at 150,000 pages per year. "Traditionally, diagnostic equipment manufacturers tried to automate the diagnostic process by taking the technician's brain out of the loop. Since the amount of information needed to diagnose cars has increased by 240 times in the past 20 years to six gigabytes (6,000 megabytes), the current computer technology simply is inadequate to automate the diagnostic process. Computer experts believe that nothing short of a $10 million Cray supercomputer and tens of thousands of man-hours of software development will be required to approach the 90% accuracy level of automated diagnosis required in the garage (up from 40% today). And the typical computerized diagnostic analyzer uses a 286 processor and has less than a few megabytes of information."

It looks as if auto repair is faced with some serious challenges. Yet there are no real answers to the training issue.

Peter Fichtner said that it takes 40 hours of training for one system at Bosch. And Jeff Silver, executive vice president at I-Car, Wood Dale, IL, pointed out that Precision Tune gives its technicians 150 hours of training over five weeks before it lets them work.

Then, Tom Golden pointed out that there are approximately 750,000 mechanics at work

WHAT DO MECHANICS KNOW?

Bill Sauer, president of Autotech, Roseville, MN, surveyed more than 500 mechanics about what they knew about how cars worked. The results, he said, were not encouraging.

Question	Percentage answering correctly
What purpose does an EGR valve serve?	18%
For an engine running at 2,000 RPM, how fast is the distributor turning?	21
When shorting out a cylinder during a power check, an engine speeds up. What are the causes?	0
What is the maximum allowable voltage drop across an electrical connection?	4
What are the proper readings for HC, CO^2, O^2 and CO in a properly running engine?	15
How does an oxygen sensor work?	18
What is the maximum amount of backpressure and where is the best place to check it?	6

Source: Bill Sauer, Autotech

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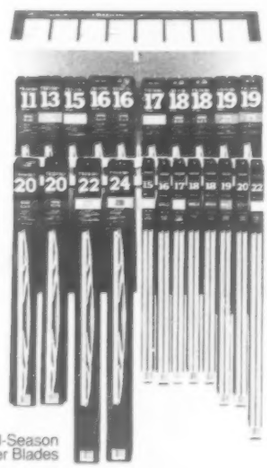

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today. "At 750,000 technicians, figure 25 to a class and that's 30,000 classes for one system." If you multiply that by 40 hours then 1.2 million training hours are needed for just fuel injection.

And, speaking from the audience, Bob McKenna, president of NAPA, Atlanta, wanted to know, "Who's going to pay for all this training? That's the real issue."

That, indeed, is the real issue. Because, in addition to needed training in automotive, incoming mechanics are woefully unprepared to learn. Silver pointed out that 27 million adults are functionally illiterate. "That means they can't read, write or do math above the fifth grade level. Another 45 million can't read, write, or do math above a seventh grade level. That means almost one third of the U.S. is nearly illiterate. If you take a look at a car manufacturer's shop manual, it is written at a tenth to twelveth grade level. It doesn't need to be, but it is. With this kind of situation, we're kidding ourselves to think that things we put in print will reach people who are going to be able to absorb it."

Silver calls it "a quadruple whammy:"

- A changing workforce
- An increasingly complex automobile
- A shortage of people
- Increasing consumer demand for quality

Obviously, those attending the conference came up with no new grand design for retraining the aftermarket. But it was pretty evident that manufacturers and distributors are going to have to work together to bring new high school graduates to a reasonable level of basic skills so they can use the improved diagnostic equipment. And this need goes beyond the shop. James Porter, president of Triad Systems, Livermore, CA, outlined the difficulties of setting up Triad's parts-lookup system and its potential uses. About half of the counterman positions in the country are presently computerized, Porter said.

While several companies have made great strides in equipment for both the counter and shop, no matter how good the equipment is, the equipment is worthless if counterman and mechanics can't use it.

And, as Golden suggested, "the aftermarket will not survive, as we know it now, if we do not provide the skills necessary to understand, diagnose, and properly repair the vehicles today and tomorrow."

In the same vein, Sauer said it better: "It wasn't raining when Noah built the ark." ■

INDUSTRY COMMENT

CARQUEST Strongly Supports Three-Step Distribution

We've heard lots of talk about two-step distribution in the past year, and at a recent CARQUEST board of directors meeting we decided it was time to let the industry know what we think and why," Dan Bock, president of CARQUEST, Tarrytown, NY, recently wrote to us. "We believe it is vital for everyone involved in aftermarket parts distribution to understand what they are doing if they circumvent one of the distribution steps, and why it

MERGING MARKET

Steadily and surely, the retail and traditional markets are coming together in a merging market

by **John Wirebach,**
Senior News & Feature Editor

When I said I was writing an article on the merging market, X, the owner of a three-store chain said I might want to write about his home town.

"It was a fairly clean town until a few years ago," X said.

The town is in the hills of Pennsylvania where crime, corruption and competition seem to be something you see on TV or read about. The chief industry is the state university. For years, the biggest news in town was the football team. Students call it Happy Valley. About a dozen jobbers split the parts business.

But in the 1970s and 1980s, the town boomed as light industry and service businesses liked the ambience, low taxes, and low rents. By the 1980s, the town was classified a metropolitan area, not a large metro area, but a metro area nonetheless.

There was always another small chain competing for retail business, X said, but in the 1980s one of the largest programmed distributors took over their independent and turned it into a company store. "They were the first. Then the last big independent warehouse started losing sales, and began buying up stores and went straight jobber price to installers. It created a price war. It's absolutely insane. I give my independent jobber friends two years, max. They can't sell at jobber price. They're losing 70-80% of their wholesale business. There was a fair size jobber right near one of my stores that's moved three times now. He went from 6,000 square feet to 1,500. He's shrinking to nothing. What little business he has left is retail people looking for C and D numbers."

X gave a few examples. "I had a Midas store about a mile away. They were worth about $1,000 to $1,500 a month. Then the company store started selling them at straight jobber. I've got the latest Midas statement in my hand. It's $32. They're buying from the company store at 'J minus something'. The company store can live off 'J minus 2%' to dry me up.' There's a Chevy dealer three miles away I was selling at straight jobber two years ago. In three months I got locked out on price alone."

Luckily, wholesale is only a quarter of his business. "We're OK. I buy the majority of my lines direct. We're the last independent that might survive."

And then, a large discounter recently opened a store in town. "My oil supplier is wondering why I'm not buying much oil anymore. The discounter is *selling* oil at $11.88 a case. My *cost* is $16.50 a case. We were selling oil at $17.50 a case and hoping to sell the filter. My oil distributor is now buying oil from the discounter. He's bitching at me and his supplier is bitching at him. The whole distribution chain has broken down. The aftermarket is going the way of the supermarket industry. The big guys have a good marketing feel and they're going to cherry pick the market. The independent is going to be like a specialty retailer and stock the stuff nobody else wants to carry."

The Merging Market

Thus the merging market has come to the hills of Pennsylvania. From the point of view of the small independent, it's a disaster; but from the point of view of the aftermarket, it's a natural process, an evolution. It's much like glaciers and dinosaurs and evolution, or the Hegelian Dialectic with a thesis, antithesis, leading to a synthesis.

We've been talking about the Merging Market for some time now. The Merging Market did not suddenly appear; we can't say it began on July 11, 1987, for instance. Rather, it's a slow,

steady progression that's still taking shape. Geographically, it began in cities and spread to the small towns. In many rural markets it's still on the horizon.

On a physical level, Jack Creamer, president of Distribution Marketing, Darien, CT, says the merging market is happening on the top 2,000 part numbers, the A numbers. But what is an A number?

According to Pete Kornefel, president of Hatch Grinding, Denver, CO, his 4,325 A numbers represent 29% of total inventory and 45% of sales. In a recent presentation at the Frost and Sullivan Conference, he noted that the same 13,700 part numbers that represent the limits of retail store inventory (A-B-C numbers for jobbers), represent roughly half his total inventory and 71% of his sales. Perhaps it's more reasonable to talk about the top 13,000 part numbers where jobbers and retailers compete.

Specialization

Although numbers play their part, identifying and classifying the merging market is more a matter of perception and insight. Overall, we see three modes of merger in today's market.

First, specialization. In the early 1980s, drawn by potential high margins, it seemed as if many non-automotive retailers were either going to sell enormous amounts of automotive product in their stores, or buy up automotive chains. As the 1990s began, this seemed much less likely. While grocery, drug, and hardware stores still sell automotive products, the number of SKUs in their stores has not expanded, and by and large they are no longer serious competitors to the auto chains.

At the same time, buyers from outside the automotive aftermarket have had a dubious record in buying and operating automotive chains. Examples that come to mind are Perry Drug, Southland Corporation, Alghanim International, and Lucky Stores. Even the more successful owners such as Rite Aide Drugs suffered several fiascos before finding automotive people to operate the chain successfully.

Another example of what we mean by focus and specialization can be drawn from three chains that were Sunbelt competitors in the early 1980s: Western Auto, Otasco, and White Stores. Only Western early on decided its future lay in automotive sales and went with that concept. Both White Stores and Otasco floundered around trying to be several stores in one while specialists stole the business from them. The result? Western Auto is a $1.3 billion company owned by Sears, while Otasco and White Stores are in the dustbin of retailing, although White's legacy is a $192 million tax writeoff that's currently financing Canadian Tire's second attempt at the U.S. market.

Still a third trend in focus and specialization can be seen in the auto business in discount and department stores. Penney's closed its auto centers in the early 1980s, Kmart continues to weed out marginal centers (currently it's some 1,050 out of 2,350 stores), Sears has downsized its prototype auto departments as just one of seven departments in the store (while buying up specialist Western Auto), and Wal-Mart has selectively opened some auto centers (about 425 out of some 1,600 stores).

Consolidation

A second mode of merging markets is consolidation. The number of store owners is declining. This is happening on both the traditional and retail sides of the market. Consolidation, acquisition, and merger are the key topics in every aftermarket office, whether it be a WD or a retail chain, today. Practically every chain or WD seems to be for sale.

While consolidation has slowed in 1991, perhaps the single most important trend in the retail market was the merger and acquisition mania that led to consolidations and bankruptcies in the 1980s. Only Advance Auto, Champion Auto, Genuine Parts, and Nationwise of the twenty largest auto chains have not changed hands since the 1970s.

The spate of mergers and acquisitions created the megachains. By our count, there are now twenty chains operating more than 100 stores. Four, in fact, operate more than 500: Northern Automotive, based in Phoenix, bought up the smaller Schuck's, Checker, Kragen, Crown, U-Save, and Autoworks chains for a total of some 800 stores; Chief Auto Parts, Dallas (about 520), AutoZone, Memphis, TN (about 560), and the Genuine Parts-owned NAPA stores which owns some 650. Western Auto, Kansas City; Trak Auto, Landover, MD; and Pep Boys, Philadelphia, all own more than 300 stores.

Although the big buyers have been retailers, the traditional warehouses haven't stood still. WDs suffered most from the booming DIY market and gas crisis of the 1970s. Many weak WDs and jobbers went out of business or were consolidated into larger WD groups. Key examples of this are the AI Automotive (New York) purchase of some 20 smaller warehouses over a four-year period, and the Cardis (Buena Park, CA) amalgamation of half a dozen California warehouse operations into the second largest WD company in the country. Other warehouses practiced looser consolidations into buying groups to cut acquisition costs.

In addition, recently, CARQUEST wrote to correct our Top 100 listing of Valley Motor Supply and Keenan Auto Parts as separate entities. Both are owned by General Parts, Raleigh, NC, which also has operations in Minnesota, Michigan and practically every Southern state. Its most recent deals are mergers with CARQUEST partners Indiana Parts Warehouse and World Supply in Lemont, IL. Other WDs such as Parts Inc., Memphis, went on a jobber buying spree in the 1980s, ending up with 180 or so jobber stores; and Fisher Auto Parts, Staunton, VA, continues to snap up small jobbers until it currently owns 181.

Consolidation Strategies

What is the conceptual strategy for consolidation? Hank Allessio of Easton Consultants, Hopkinton, MA, puts it this way. "The party line is: By acquiring larger market shares you get market density and scale economies. This translates into lower unit costs. If you lower costs and market prices stay the same, you get a higher profit. The market is consolidating. As the market sorts out or rationalizes, and other chains fall aside, then prices and profits rise. The survivor in a rationalized market is in a good position. If you develop this kind of cost position, then you're in a strategically defensible position. Then you can thumb your nose at the competition."

Allessio suggested the analogy of today's unregulated airlines. "I defy you to fly cheaper from Boston to Detroit than you can from Boston to L.A. That's because you have a controlled market on some routes. A rationalized market if you will."

But, Allessio pointed out, "That only works

THE EVOLUTION OF THE AFTERMARKET

1920s: Formation of the aftermarket
- Car dealers repair car with parts from OE car makers.
- Jobbers buy and sell parts to independent repair shops without WDs.
- Retailers sell some parts and accessories to DIYers
- Notable beginnings: Western Auto, 1909; R&S/Strauss, 1919; Pep Boys, 1921. National Automotive Parts Association (NAPA), 1925; Genuine Parts, 1928.
- 22 million cars on the road by 1929

1929-45: Depression and World War II
- Only 25 million cars on the road by 1945

1940s-1950s: Post-War Boom
- Gradual assumption of regional distribution by WDs
- Establishment of three-step distribution (WD/Jobber/Installer)
- Automotive Warehouse Distributors Association (AWDA) formed
- Automotive wholesalers: 1953, 9,325; 1963, 22,883
- First automatic transmissions, power steering and brakes, air conditioning, 12-volt batteries
- Twice a year tuneups, oil changes every 1,000 miles, 90-day warranties
- 40 million cars by 1949 and 61 million by 1959

1960s: "The Golden Age"
- Flight to suburbs; two and three car families
- "It's impossible to lose money selling auto parts."
- Gas stations reach 216,000 (359,000 repair shops), buy through 24,655 wholesalers (1967)
- Availability and service key sales factors
- Supplier dominated distribution
- Mass merchandiser discount stores and auto centers
- Steady growth in DIY sales; manufacturers start white box program for retailers
- Automotive Parts and Accessories Association (APAA) formed
- Specialty Equipment Market Association (SEMA) formed
- Power seats, locks, windows, cruise controls
- 90 million cars by 1969

1970s: The decade of change
- Two gas shortages in 1973 and 1979 close 100,000 gas stations
- Number of repair outlets falls to 275,000
- Rise of jobber retailing through programmed distribution
- Import car sales rise to 25% of new car sales
- Radical OE design, engineering, and downsizing changes leads to parts proliferation
- Clean air act adds emission control devices to cars
- Drive for mandated fuel economy
- Electronic ignitions, disc brakes, catalytic converters

1980s: The fragmented aftermarket
- Early 1980s, a severe recession hurts new car sales
- Average age of cars reaches 7.6 years; a third of cars on the road are more than 10 years old
- Drastic rise in franchised repair specialists
- Grocery, drug, hardware stores add automotive SKUs
- Merger mania leads to 20 or more megachains with more than 100 stores
- A jobber store a day closes
- Some 20 or more programmed groups in business
- Revival of the performance market
- Stocking import parts a key problem for retailers and wholesalers
- Growth in light truck sales
- Stainless steel exhaust, ABS brakes, electronic suspensions, electronic fuel injection
- 144 million vehicles on the road by 1989

1990s: The merging market
- Key question: Will DIY sales decline?
- First automotive warehouse stores open
- Specialized automotive warehouses are big business
- Programmed distribution spreads to retail and performance markets
- Automotive Service Industry Association Count: 700 WDs, 26,200 jobbers
- APAA Count: Auto parts chains operate 14,100 stores

if there're strong economic barriers to entering the business. I question whether Northern (with 800 or so stores) is in a better position than Pep Boys (with slightly over 300). The number of outlets may not be the key strategic variable. Twenty years ago A & P was clearly the largest grocery chain. It had stores in every town. But while little regional chains like Winn-Dixie in the South, Ralph's in the West, and people like Kroger didn't have the number of total stores, but they had market density. They operated more efficiently at the local level. They started eating A & P's lunch. And where is A & P today?"

It may also be a challenge to get to a rationalized market position. Allessio charts the operating results of public chains. He notes that when inflation is factored into the sales figures, actual sales growth has barely kept pace with inflation. The auto chains have increased sales only through income from new stores. A chain that stops growing for any reason is in trouble since it must continually increase sales to pay off the debt loads accumulated through acquisitions. The key, for Allessio, is the failure of many large chains to perform as well as smaller chains.

The Down Side

Judging from the results of companies that have put together big chains, you might seriously wonder if bigger is better when it comes to profitable operations. Indeed, you could dispute whether a growth through acquisition philosophy really works. Retailers such as Perry Drug which put together a 250-store chain chiefly through a five-year acquisition plan sold out under financial pressure, while Northern Automotive (which began buying with the highly successful Schuck's chain, then bought financially troubled Lucky Stores and Perry Drug) has had continually problems and recently sold off Crown Auto. On the traditional side, both Cardis and the Kuwaiti-owned AI collection of 20 or so warehouses went bankrupt, although Cardis is in the midst of recovery.

Jack Creamer has a simple reason for such poor results: "The traditional market is overcrowded. There're not enough customers. There's a shrinking of the pipeline going on. A normal shakeout. It's not caused by any unusual phenomena. It's not all bad management. Look back; there were 225,000 gas stations. Now there're 120,000. There were 30,000 car dealers. Now there're 20,000. Where are jobbers going to sell?"

Creamer sees a 1990s aftermarket of 25,000 jobbers, 20,000 car dealers, 400-500 WDs, and about 130,000 gas stations. "There'll be six to eight program groups, fully integrated. Then you'll see some niche marketers."

On the retail side, Creamer was no more optimistic. "You don't need that many retailers. Northern acquired four companies but three were marginal performers. Getting bigger doesn't automatically make them profitable. The concept is good, but there's so much corporate debt, so many logistical things, past dues. They must sort it out. That's scary. But take Pep and Genuine. They make nice money and profits. They don't deviate from plans. They don't have random acquisitions."

Creamer blamed consolidation on suppliers flooding the market with inventory. "Overcapacity sets up some bad patterns. It will all sort out, but we're in transition. One problem is accounts receivable. Suppliers replaced banks for many WDs. They had to do it to keep their distributors afloat. But they will have to let some go. This is a transition period that vendors must deal with. The bays will be there in the future. All the demographics are there. The underlying health of the market is good. But the market must go through a transition and vendors will have to adjust."

And Art Lottes, president of A.E. Lottes, St. Louis, and president of CARQUEST, said, "A lot of people are going out of business. It's got more to do with rationalizing overcapacity than anything else. The system isn't broke. It works. We have jobbers in the midst of the most competitive situations that are thriving. They have good inventory, sharp people on the phones, and good delivery. They do the basics. If you don't have a competitive edge, don't compete."

The president of one of the biggest programs in the country thinks consolidation on the traditional side is healthy. "A lot of companies are going to go down the tubes. That's good, it's cleaning up the industry. The worst competitor there is is one who's fighting for his life. He's like a wounded bear; he'll do anything. A little bit of consolidation will help get some people out of the business. The kind of guys who want country club memberships and pay themselves big salaries. We'll get a little more discipline and business orientation in the industry.

"You'd be shocked at the way some people run their business. A lot of WDs lived well and made money. Now it's tough to keep competing against the programs. You have to add value to your sales.

"It's easy to run a platoon, but it's hard to run an army. You get a lot of slick financial guys buying screwed-up distribution, and then they can't figure out how to run it. They can do the number crunching, but it's a service and people business. The slick financial guys are not ready to roll their sleeves up and get to work. There's not a lot of mystery to this business although some people think there is. You buy and sell parts and be sensitive. You block and tackle better than the next guy."

Effect On Suppliers

A second effect of consolidation falls on suppliers. The top ten chains on our Top 100 list, for instance, owned 1,804 stores in 1982. As of our latest count in July, 1991, the same ten chains own 4,109 stores, which means the ten chains more than doubled their size in not quite ten years. During the same period of time, the same ten chains bought up, merged, or somehow incorporated more than 40, and closer to 50 previous chains into their operations. Each of the incorporated chains represented a buying location no longer in operation. So while the number of auto stores continues to increase, the number of store owners (and buyers) is actually declining.

As buying points decrease, interesting regional situations occur. For example, Four retailers—Pep Boys, Kragen Auto, Trak Auto, and Chief—dominate the Los Angeles retail market, while NAPA, Big A and CARQUEST all operate jobber stores. But of the seven operations, only CARQUEST actually has a member warehouse with a buying office in L.A. Pep Boys, Kragen, and Trak all closed Los Angeles offices in the 1980s. It seems strange that the largest single automotive market in the country, and the place where fads and trends tend to begin, lacks a major buyer.

Fewer buyers also mean that retailers and programmed groups have gained the kind of clout no one foresaw twenty years ago. Today, it's the retail segment that dictates changes in distribution. Suppliers who fail to sell the major chains can easily be frozen out of regions, which means both large programs and retailers are now able to squeeze suppliers for the very best deals and advertising support over and above normal coop allowances.

One supplier said, "The big guys are going to eat the little guys. I have no idea how some of the small guys are surviving now. Eighty customers account for about 85% of our sales. It's going to get worse before it gets better. I can see maybe only 50 customers in five years. And everybody will be there with their hands out."

A buyer for one of three competing chains in an eastern city said, "Do I play one vendor against another? Of course I do. Do suppliers want to pay for all the promotion stuff the chains are doing? Of course not. But the real question is, will they do it? Sure, if it's a power chain. Any kind of deal you can conjure up is out there if you want to look for it."

Merging Channels

The success of retailers created the third, and perhaps, the most important mode of the merging market. Slowly but surely the traditional WD/jobber/installer channel and the retail channel are beginning to resemble one another in the way they go to market.

Probably the heaviest impact from a merging market has fallen on the traditional market. Traditional WDs and jobbers still control almost half of all parts sales, with close to $20 billion in sales in 1990. But while it remains the leading channel, the traditional channel is not the same distribution channel it was in the 1960s.

First, to offset the direct buying advantages of the retail chains, WDs formed buying groups to get better pricing from suppliers. While groups like NAPA and Big A had been around for some time, the big push to join a group came first in the mid-1970s, and once again in the mid-1980s. According to the latest Automotive Warehouse Distributors Association (AWDA) membership directory, 81% of 230 WDs are members of a programmed group.

The chief result of programmed distribution

RETAILERS AND JOBBERS: WHAT'S THE DIFFERENCE?

Although it's hard to tell some newer or remodeled jobber/retailer stores from auto chain stores, there are still distinct differences between the two types of stores. The single most important difference is what they sell. More than two thirds of jobber sales come from parts sales, while sales of parts amounts to just over half of auto chain stores sales. Other differences:

- Most jobbers have been in business longer.
- Some 40% of jobbers don't have self service.
- Chain stores are open longer hours, more days.
- Chain stores average twice as many transactions.
- Jobbers seldom advertise.

Category	Auto Chain % of Sales	Jobber % of Sales
Parts	35%	71%
Accessories	28	6
Chemicals	9	2
Batteries	8	4
Motor oil	7	5
Other (tires, services, installations)	13	12

Sources: APAA Fair Study, *Automotive Marketing*, Lindsey-Kaufman.

was to make the jobber a better retailer. The average jobbers went from less than 10% cash sales in the early 1970s to about 35-40% cash sales by the late 1980s.

Probably the simplest example of the effect of programmed distribution is in the store look. Because of programmed distribution it can be hard to tell the players without a scorecard. New NAPA and Parts Plus stores look more like Pep Boys or AutoZone stores than they look like traditional jobbing stores. This is one obvious way the two markets have come to resemble each other.

While the traditional market became more retail-oriented through programmed distribution, the late 1980s saw a return to the service dealer. Lately, WDs are trying to find ways to apply programmed distribution to their wholesale customers through better prices, computerized linkage, and even some full-scale conversion programs. One obstacle seems to be convincing mechanics to use private label parts.

On the retail side, a few retailers are beginning to examine the ways retailers can reach installer customers. Hi/LO Auto, Houston, is one retailer that's had some success with selling wholesale to professional installer customers. Others will follow and here too channel distinctions will decline.

Captive Stores

But perhaps the single most important way the traditional and retail have come to resemble each other is in captive stores. A very long time ago, a supplier described Pep Boys as simply "a large WD with captive stores." He was absolutely correct, and a growing number of WDs are becoming large WDs with captive stores.

One reason is a declining jobber base. The best estimates say the jobber count has declined from about 32,000 in the 1970s to about 25,000 today. A second reason is the jobber's ability to buy elsewhere. As a by-product of programmed distribution more and more suppliers have found themselves frozen out of areas. And so, more suppliers are selling direct to jobbers and large installers. When *Automotive Marketing* surveyed chains with fewer that 10 stores for this issue, we found that the small chain buys an average of 46% of its product direct from the manufacturer.

Indeed, the percentage of product jobbers buy from full line WDs has been steadily declining to about 55-60% of dollar volume. In addition to buying direct, the jobber now patronizes specialty, performance and discount warehouses, and for some import lines, car dealers. So the full line WD continues to lose business.

In response, an increasing number of WDs own and operate their own stores, and the number of jobbers they own is also increasing. When we reported on WD-owned stores in 1987, we counted 2,017 jobber stores owned by AWDA members. This year, for the first time, AWDA added this statistic to its membership directory. According to AWDA, 113 AWDA WDs out of 230 U.S. WD headquarters (roughly half) own stores. The member owned stores total 2,131. However, several major WDs did not list their company stores in the AWDA directory; and, just judging from five member WDs that we know do own stores, we could easily add 475 more stores to the list, so it's quite likely that AWDA members have added at least 600 stores in five years.

Our total estimate in 1987 was about 3,500 stores owned by WDs; Jack Creamer and Jay Bock believe it's closer to 5,000 now. That's close to 20% of all jobber stores, although some of the WDs may actually be captive, or paper warehouses owned by jobber coops.

The leading WD owner is Genuine Parts, the leading NAPA distributor, which owns about a tenth of NAPA jobbers. Two other NAPA distributors, Davis and Wilmar, Pittsburgh, and Brittain Brothers, Oklahoma City, also make our top 100 list. Other WDs fast acquiring jobbers are General Parts, the largest CARQUEST WD, and Fisher Auto Parts, which also operates the Federated program.

The move to retail with its accompanying growth in jobber retailers was the reason most WDs got into owning stores. The first phase came with programmed distribution which tied jobbers and warehouses closer together and allowed better pricing and merchandising programs. Now, perhaps 80% of all jobbers are involved with a program to some degree. To some degree is the operative phrase. WDs concede that at best slightly over half their customers buy 80% or more from them. Even more importantly, the warehouses still lack control of jobber-owned stores. And, while the programs made the jobber competitive in smaller markets, in major cities the jobber was still priced out of the game. For one thing, his pricing was still higher in competitive product lines; but even more importantly, very few entrepreneurs could afford retailing locations. While traditional jobbers could go anywhere and service dealer customers, jobbers who wanted to retail had to go to expensive retail-oriented locations.

Retailing

So, most of the WDs involved in programs

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took the logical next step and opened owned jobber/retail stores in order to compete. Today, most of the major program groups—NAPA, Big A, Parts Plus, CARQUEST—are competitive in metropolitan markets because their member WDs own stores.

The need to compete for the retail dollar also led independent traditional warehouses to set up retail operations. As a result, some of the largest and most successful WD store operations are wholly retail such as Parts City (26 stores owned by Alexander-Seewald, Atlanta), or primarily retail such as the 115-store O'Reilly/Ozark chain, Springfield, MO; the 94-store CARQUEST chain owned by Straus-Frank, San Antonio, TX; and the 36-store Taylor Parts chain owned by TPS, Andalusia, AL.

Mike McTeer, advertising manager at O'Reilly/Ozark, said the trend will definitely continue. "It has to. The control factor is so important. Based in a competitive market, unless you have absolute control of the program and the pull through, you're lost. The jobbing industry up to now has been a haven for Ma and Pa. It's so difficult to deal with some of them. They've been doing it their own way for so long. You try and develop and work your program, and a lot of independents don't give it a chance to work. And you just can't march in and say, 'Do it.' In our own stores, if a program isn't working, somebody answers for it. A lot of independents have fallen far behind, and their future is bleak."

In line with this, 15% of of the small chains on our survey conceded that WDs selling direct or buying their own stores was the biggest threat to their existence. "The worse part is the big guys like NAPA and Big A always say they're going to protect their little independents," one jobber said, "the guys I compete with. Then, about every month they come in and ask me if I want to sell and become a company store."

Dirk Hoyt of Hi/LO, a 108 store chain that recently went public, suggested, "If WDs don't buy their customers, eventually they're not going to have many people to sell to." Hoyt says this has already occurred in Houston. "There're virtually no unaligned stores left. There's a real shakeout. Several warehouses have gone out of business, and several have such bad business they're selling direct to DIYers at jobber price."

There are also fringe benefits to retail operations as Alexander-Seewald's Jack Alexander III pointed out. "The Parts City Stores complement us very well," Alexander said. "They allow us to stock retail items that would not have the volume otherwise, and we can offer the retail items to our independent jobber customers. Still, if you do one thing well, you may do two things half as well. You're running two programs with the same management. There're equal strengths on both independent and company sides. We're not going to leave our independents in favor of retail. Each side gets better because of the other."

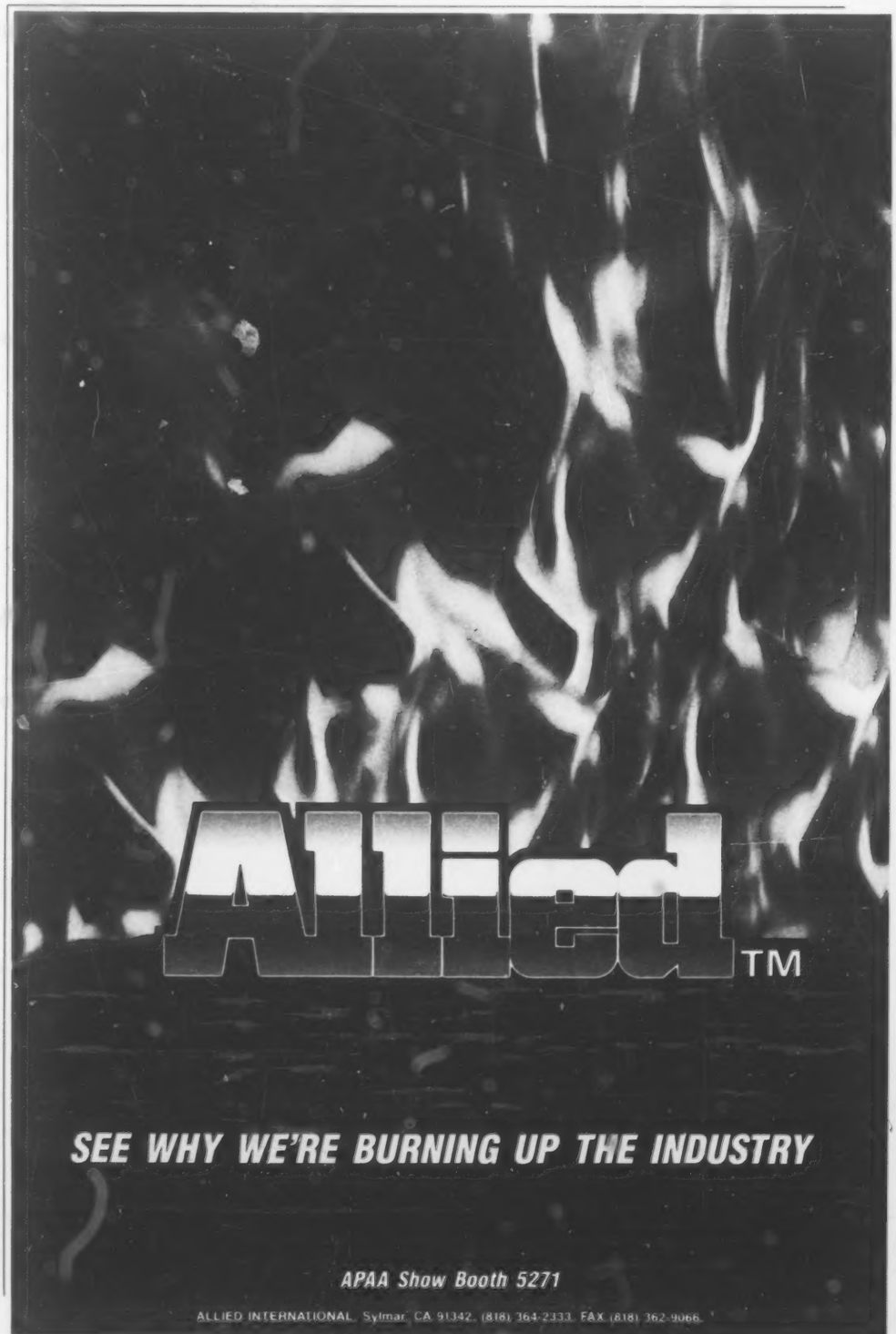
If anything, Alexander said, the independent stores the warehouse services are increasing faster than Parts City stores. "I'd have a hard time deciding whether I'd want ten new company stores or ten new independent customers."

In Savannah, GA, Alexander-Seewald opened Parts City stores because company-owned stores are necessary in metropolitan areas due to "the inadequacy of 'Ma and Pa' stores to remain competitive in metropolitan areas." Alexander explained. "That's exactly the situation we saw happening. Jobbers in Savannah were closing one by one. The survivors were either NAPA stores or retail chains. The jobber base was not the type business we wanted to build our business on. After we opened our seven Savannah stores, we had four stores join our AutoSure program. They saw our stores and said, 'Maybe I can do that too.' So, the programs complement each other."

Integration

The most recent additions to the aftermarket also reflect a merging market. On the retail side are the first warehouse stores that opened in California in 1990 and in Indiana in 1991. These clubs sell 17,000 SKUs with no frills at a 10% markup, lower than even retail chains. They combine a tire store and a DIY store under one roof. On a more traditional note, specialized warehouses such as A & P in Memphis which grew from $5 million in 1980 to almost $450 million this year simply by stocking only A and B SKUs at substantial discounts. The trend toward specialization among WDs continues with undercar WDs, engine part WDs, and performance WDs.

The next step would seem to be total integration. A store open to the public with a WD's inventory that delivered like a jobber. Is that possible? There are already WDs that deliver at jobber price to major installers. Some further integration is the wave of the future for WDs and retailers alike. The traditional market will more closely resemble the retail market where programs are decided at the highest level. Retailers will either provide service or sell service customers." ■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MERGING MARKET:

WILL THE SMALL CHAIN SURVIVE?

As the aftermarket merges and consolidates, will the small chain survive?

by **Phil Katcher,** Business Editor, and **Regis D'Angiolini,** Editorial Intern

It's all the fashion to look at the large chains, the Northern Automotives, NAPAs, and AutoZones, which have been notably successful in today's merging market. And, it's helpful in running any size business to see how these chains have gotten where they have.

But in thousands of towns across the country, the small auto parts chain store is still the place where the DIYer and professional installer alike buys starting system parts, carburetors, and brake system parts. Small chains—chains with fewer than ten stores—survive despite rising insurance rates and taxes, government legislation mandating expensive employee benefits and environmental measures, and increased competition from large discount and auto parts stores chains.

"The fact of the matter is that small business is the backbone of the country," said Walter McLaughlin, president of McLaughlin Automotive Stores, a seven store chain in Providence, RI, and a past director of the Automotive Service Industry Association (ASIA), Chicago. "That's what has made us great here."

However, looking into a future apparently dominated by Wal-Marts and Kmarts, by Pep Boys and PACCAR, how long can these small chains survive in their present forms? What do they have going for them today? And, what will they have to do to survive?

Defining The Small Chain

Small chains have a great deal in common.

Recently *Automotive Marketing* surveyed small chains across the country and discover ' that the average small auto parts chain is 32 years old and consists of four stores that are family-owned. The average small chain store has just over 6,000 square feet with an inventory of between 20,000 and 30,000 stock-keeping-units (SKUs). A total of 38% of the average small chain's sales are accounted for by retail sales, mostly to DIYers. The chain has a total of 35 employees, of whom three work in a central office and hold management titles such as general manager, buyer, or president.

In reality, there probably isn't a small auto parts chain that fits this description exactly. Across the United States, small chains are managed, organized, and operated in a bewildering variety of ways. Although we found that most of these chains are family owned, not all can fit

A customer is waited on at the Bismark store of Hedahls, Inc., a 14-store chain based in North Dakota. Close relationships between company management and its customers allow the chain to respond to market conditions better than a large chain can, according to company president Dick Hedahl.

Five countermen at a Mechanics Auto Parts store keep the company's computerized inventory and ordering systems busy.

into a "mom and pop" type description. Not all are 32 years old; not all have the same number of stores; and not all have the same number of employees. Small chains are true individuals.

Our survey found that many small chain owners began their businesses during the 1960s. We found that the largest single group of small chains, 31%, has been in business between 21 and 30 years. Another 24% has been in business 11 to 20 years, followed by 12% at both 31 to 40 years and 41 to 50 years.

Our survey also found that the largest single group of small chains, 24%, consist of three stores, while another 22% consist of four stores.

One third of the chains in our survey were found to have between 15,001 and 20,000 SKUs in their average store. Another 29% had 15,000 or less SKUs, and 25% had between 20,001 and 30,000 SKUs.

Most of the chains we surveyed have stores that are smaller in terms of square footage than many operated by large chains. Exactly one quarter of the small chain owners we surveyed said that their average store has between 5,001 and 6,000 square feet. One fifth said that their average store has between 3,001 and 4000 square feet and another 18% said that their average store has 6,001 or more square feet. There are few "super stores" operated by small chains.

The survey discovered that most small chains are traditional jobbers. Almost two-thirds, 63%, said that sales to DIYers account for 35% or less of their total sales. Another 20% are mostly retailers, with their sales to DIYers making up 60% or more of their total sales. Another 17% are jobber/retailers whose DIY sales make up between 36% and 59% of their total sales.

More than half (61%) of the chains we surveyed were programmed distribution group members, with the largest single group belonging to NAPA.

Our survey also found that most small chains are holding their own at the present time. While two-thirds of the small chain owners we surveyed are not planning to open any new stores in 1991, almost all small chains, 96%, aren't closing any of their stores, either. That doesn't mean they wouldn't take advantage of any expansion opportunities that could come their way. Just over half of the chains we surveyed, 51%, said that they would acquire other stores or even chains this year if they had the opportunity.

Problems Of The Small Chain

Although small chains are surviving, their owners say running such an operation is not without its problems. We asked small chain owners if managing a small parts chain was more difficult today than when they started. An overwhelming majority, 89%, answered yes.

However, when asked about specifics of what the most serious threat to the health of their chain was, most small chain owners answered insurance, especially medical, and other employee benefits.

"Most of our employess have been with us 10 years plus," said Mickey O'Dell, vice president and general manager of Auto Parts Service, Inc., a three store chain headquartered in Beckley, WV. According to him, his employees "expect increases in pay each year and for us to maintain benefits. It is becoming increasingly hard to do." Adds McLaughlin, "Insurance of all types is out of sight."

The second highest ranking threat is government and taxes. Depending on the region of the country, some small chain owners said that new environmental legislation had an effect on their business as well. "It's starting to snowball," said David Huntley, vice president, Japanese Auto Parts and Service, Reuton, WA. "It's waste oil. The EPA wants you to get rid of it, but they won't tell you what to do with it."

"It's difficult generating enough revenue to satisfy the government," said Walter McLaughlin. "The picture is not bright here. We're not getting much bang out of our buck. The U.S. over the last 30 years has ruined the greatest industrial machine the world has ever known." Mixing metaphors, he added, "The bubble has burst and now we're sitting here with egg on our face with a real problem."

To help solve this problem, McLaughlin advises other small chain owners to "get involved in government. Even if it's only writing letters. We definitely need reform."

Competing With Large Chains

The third major problem small chain owners see is competition from large chains, most of which advertise heavily and offer greatly discounted prices. "The large chain has an outrageous advertising budget," said Rick Todd, owner, Discount Auto Parts, Conroe, TX. "I don't have two to three million dollars a year to advertise with." The big chains have another monetary advantage, according to Richard Beirne, president of United Auto Supply, LaCrosse, WI, an eight-store chain. "Market conditions lead to price cutting," he said. "The big players have an unfair advantage here." Agreed manager Kelly Schlake of Atlantic Motor Supply, Atlantic, IA, a chain such as his three store operation can't "buy at a reasonable price because of our small size."

"Finding and keeping good employees" said Doc Zylkstra, owner of S&A Auto Parts in Lynden, WA. Indeed, that dilemma ranks as the fourth biggest problem for small chains. Japanese's David Huntley keeps his best help by "allowing the employees to gain shares in the company for incentive and stability."

Employee problems are followed by price

MERGING MARKET

Signage on a typical Mechanics Auto Parts store stresses that the chain stocks import parts: The result for this store is at least one Honda Civic owner. Small chains can quickly change inventories to meet local needs.

cutting and parts proliferation. "So many dollars for parts numbers," complained Richard Morris, president of Morris Auto Supply, Stockton, CA. "We've had ongoing discussions on how to address parts proliferation," said Dick Hedahl, president, Hedahls, Inc., Bismarck, ND. "It's not possible to have inventory for everyone on the shelf at all times."

Many small chains have problems with WDs selling direct to their professional installer, and even some DIYer, customers. Bernard J. Garber, who has auto parts stores in Nyack and Haverstraw, NY, said in fact his main problem was "warehouses who do not remain strictly warehouses and sell directly to *our* customers and undercut our prices." He also added that "those who do, we refuse to buy from." Allen Gartrell, secretary/treasurer of The Internal Engine Parts Group, Inc., Meridian, MS, called them "paper mill warehouses." Complaints about these WDs were heard from stores ranging from Canoga Park, CA, to Cheshire, CT, and from Seattle, WA, to Aiken, SC.

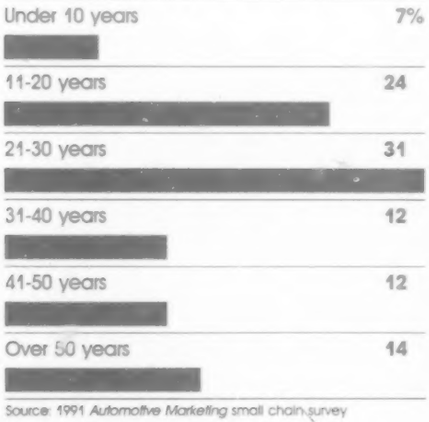
Add to them, said Billy Klein, general manager of JK Auto Parts in Bailey's Crossroads, VA, "manufacturers that can't decide which side of the street to play" and sell direct to professional installers as well. Direct sales are obviously a wide-spread problem.

Training counterpersonnel in today's technology is a problem that several small chain executives mentioned. Richard Beirne said, for example, "We are facing a lot of technology that requires more in-house and dealer education." But, according to David Huntley most training materials manufacturers produce is nothing more than a "sales meeting."

Some worried that their chain's health depended on their own health: "The disability or death of myself or a partner...a catastrophic occurence of a tornado or similar event wiping out the main store...competition from warehouses direct to our customers on more popular items," are the potential problems facing Rod Streff, president S & W Auto Parts, Holdridge, NE.

YEARS IN BUSINESS

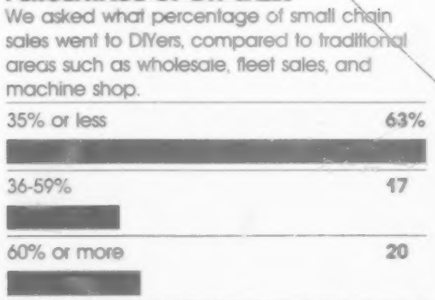
We asked how many years they'd been in business. Small chains tend to be long-lived.



Source: 1991 *Automotive Marketing* small chain survey

PERCENTAGE OF DIY SALES

We asked what percentage of small chain sales went to DIYers, compared to traditional areas such as wholesale, fleet sales, and machine shop.



Source: 1991 *Automotive Marketing* small chain survey

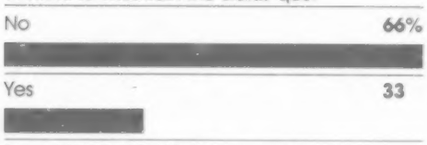
THE BIGGEST THREAT TO THE SMALL CHAIN

We asked owners of small chains what their biggest threat was. Mandated costs were the things they worried about most.

Source: 1991 *Automotive Marketing* small chain survey

OPENING NEW STORES?

We asked if the surveyed chain was planning to open any new stores in 1991. Most were content to maintain the status quo.



Source: 1991 *Automotive Marketing* small chain survey

HOW MANY STORES IN THE SMALL CHAIN

Over half of the small chains have between two and four stores.

Source: 1991 *Automotive Marketing* small chain survey

The Small Chain's Strengths

But, there are strengths found in being a small chain, too.

When asked what is the biggest strength of being a small chain, many answered an added flexibility which is the result of their size. "This flexibility is versatile," said Leon Bosquet, general manager of Auburn Auto Parts, a five store chain headquartered in Auburn, MA. "It goes from being able to choose lines and pricing as well as chosing customers."

Dick Hedahl said that, "We can respond to market conditions better than a large chain. We're big enough to be a factor and small enough to react rapidly."

"Our upper management is very involved in the day to day details of running this business and servicing our customers," said Steve Brooks, owner, Piston Service Company of Indiana, Inc., Indianapolis, IN. "There are not several layers of management that shield our top management from daily details that allow us

to keep our fingers on the pulse of our market."

Walter McLaughlin is another executive whose chain's size allows him close management abilities. "I can closely monitor all of the expense factors in my business," he said.

"Obviously our purchasing must be in tune with our customers' demands," said Robert S. Marshall, president of the four-store retailing chain Marshmallow, Inc., headquartered in Falmouth, MA. "The key ingredient to our being able to accomplish this goal is that our buyers are also our sellers. This direct customer communication is possible only in a specialty store environment."

Service Is A Strength

Service, Marshall feels is what gives the small retail chain an advantage over large chains. "To enter into a discussion of service is to do nothing more than state the obvious," he said. "How many horror stories have we all heard about the 'big department stores?' Being small allows us to work our salespeople and our customers every day. Deliveries from the manufacturer to the store and the store to the customer can always be tracked. Greeting a customer properly as he or she enters the store can always be observed. Delivery and support people always find management accessable. Long lists of rules and regulations can always be eliminated. The word 'no' does not exist in any of our stores.

"A word key to our commitment to service is flexibility, rarely used by our 'big store' competition. There is always a rule that needs to be bent or broken. There is always a situation that requires a friendly voice or a smiling face, rather than a form letter. When a customer calls to ask, 'how late are you open?' we respond with, 'what time can you get here?' Certainly not an available response from one of the 'giants'."

Rod Streff agreed with Marshall, pointing out one of the strong points of his chain is "our personal relationship with our customers."

Mickey O'Dell also noted that rapid inventory adjustments are an advantage in a small chain. "We are able to adjust more quickly to an ever changing marketplace," he said. "We can adjust inventory levels and sales plans without going through corporate channels. The people who make management decisions are directly involved with the customers." Phil Simon, of Richard's Auto Centers Corp., a four-store chain headquartered in Detroit, agreed that smallness gives his chain strength through tighter control over its operations. For example, he said, "Immediate adjustments can be made in purchasing and selling of inventory and adjustments of expenses, primarily in payrolls. Also we have been able to attract and keep more talented counter staff than larger chains, also savings in payroll because of fewer layers of management."

Employees of higher quality than those found stocking the shelves of many large discount stores were often noted as a small chain advantage. Streff said one of his advantages was the "ability to hire and train top quality employees who remain with you for a long time."

"Many larger organizations have systems in place that they feel make their programs successful," said Brooks. "We feel quality personnel makes us a cut above the rest. We feel peo-

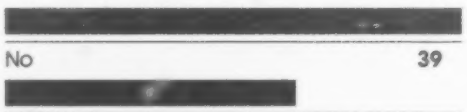
SERVICES THEY USE

We asked what services they used that their programmed distribution groups offered.

Source: 1991 *Automotive Marketing* small chain survey

MODERNIZING ANY STORES?

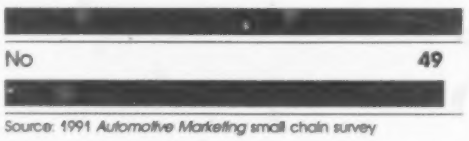
We asked if the surveyed chain would invest in refurbishing, enlarging, or modernizing its stores in 1991. Most planned such investments.



Source: 1991 *Automotive Marketing* small chain survey

ACQUIRING ANY CHAINS?

We asked if the surveyed chains *would* acquire any stores or chains in 1991 if they *had the chance. Just over half would.*



Source: 1991 *Automotive Marketing* small chain survey

THE SMALL CHAIN GROWS

Many small chain owners aren't content to stay small, but are planning expansions to make their companies major players in their markets. Mechanics Auto Parts, Inc., Blackwood, NJ, is a perfect example. It has expanded from one store to nine with a machine shop and a distribution warehouse in only 15 years. With 80% of its business as wholesale, the company is a traditional jobbing firm.

"Expansion was not a plan," said Joe York, president of Mechanics Auto Parts. "The industry forced us into expansion. We grew to minimize expense. I'd rather still have a little parts store up the street."

York's business has gotten pretty far away from simply being a "little parts store." Mechanics began in 1976 when York and his brother Michael bought such a store from a local jobber. From then on York built his chain, mostly through acquisitions. All but two of his stores are in buildings the company itself owns rather than leases.

"We would get strong in a market and we would start servicing a neighboring market," York said. "We grew in a periphery."

York bought his second store in Haddon Heights, NJ, in 1980. A third store was acquired in Moorestown, NJ, in 1981, and the chain opened a machine shop in 1982. Mechanics continued to grow throughout the 1980s and in August of 1989 purchased a 36,000-ft. distribution center in Camden, NJ. Some 70% of the company's inventory is purchased directly from manufacturers.

The company's average store is 5,000 square feet in sized and stocked with some 29,000 SKUs of product. Highly computerized, Mechanics uses POS systems, as well as computers for inventory control, payroll, electronic ordering, and billing.

Joe York, president of Mechanics Auto Parts, Inc., Blackwood, NJ: "The industry forced us into expansion. We grew to minimize expense. I'd rather still have a little parts store up the street."

Today Mechanics is a corporation with four owners, including York. The company employs 161 people, 14 of whom are in management. Currently, York plans to open two new stores across the Delaware River in Philadelphia later this year. Beyond that, York expects Mechanics Auto Parts to grow to 20 stores by 1995 and 35 stores by the year 2000. He will draw on bank loans to finance much of this growth.

"We go to market as an umbrella for the installer," he said, confidently. "Our average customer buys 95% of his purchases from my company." York reaches his customers through direct mail and flyers as well as some radio advertising.

Although facing competition from nearby jobbers, Pep Boys stores, and an AAAD outlet, York doesn't see any serious problems facing his business today. He is concerned, however, about "inventory proliferation." He thinks his chain's greatest strength is its flexibility. ■

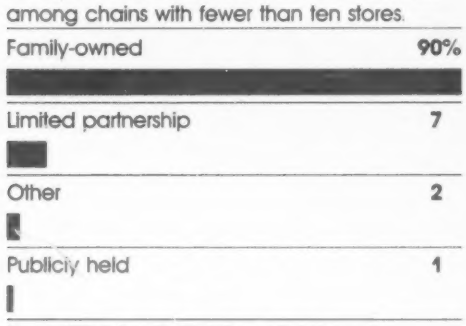
MERGING MARKET

ple buy from people." In part, Rick Todd said that his employees were better than those in large chains because they "care about the customers and their problems." According to H.K. O'Quinn, Keith's Auto Parts, Inc. Charleston Heights, SC, his personnel share a "common bond with our customers" due to their "home town philosophy." Agreed Atlantic's Kelly Schlake a small chain's strength is "being able to remain one-on-one with customers and know the names, faces, and families within the community."

Even family ownership can be a strength. According to James E. Smyth, vice president of Smyth Automotive, Cincinnati, having several family members in each of his company's eight stores helps directly oversee the business. However, warned Herbert Mines, president of Herbert Mines Associates, New York, "Even small businesses need careful articulation of who will do what. The company should resist generalities like 'hands-on' and 'we'll work together' as a substitute for careful definitions of authority and responsibility and clearly established assignments. Even if there are only a few people, each should have a reasonably clear focus on their priorities."

HOW THEY'RE OWNED

Family-owned chains are the most common among chains with fewer than ten stores.



Source: 1991 *Automotive Marketing* small chain survey

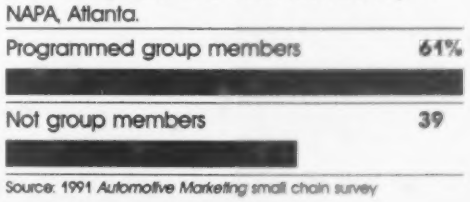
KEEPING MANAGEMENT CURRENT

We asked how small chain management kept current with all the changes in the aftermarket, retailing, technology, and the other problems faced by professional management in all fields. Trade journals represented the most important source of information to the small chain.

Source: 1991 *Automotive Marketing* small chain survey

PROGRAMMED DISTRIBUTION GROUP MEMBERSHIP

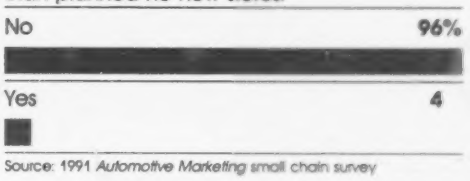
Programmed distribution groups are designed with the small chain in mind. And, well over half are now members of one group or another. About a third claim membership in NAPA, Atlanta.



Source: 1991 *Automotive Marketing* small chain survey

CLOSING ANY STORES?

We asked if the surveyed chain was planning to close any stores in 1991. Even more people planned to sit tight with all the stores they had than planned no new stores.



Source: 1991 *Automotive Marketing* small chain survey

Groups: Pros And Cons

Some small chains see survival through membership in one or more of the many programmed distribution and buying groups which have sprouted up in the last couple of decades.

They join for a variety of services that many such groups offer. Signage, at 74%, was the service most commonly used by programmed distribution group members. The next highest service was co-op advertising at 71%, followed

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by buying private label products at 69%, advertising at 48%, and personnel training at 48%.

Buying all products at better prices is, of course, a major factor in joining any group. "Larger volume allows us to support a full-time outside sales effort," said Phil Reilly, President of NAPA member Reilly Enterprises, Inc., Clinton, CT. "It allows us to buy in bulk to earn additional discounts."

Not all small chain owners feel that the best way to survive is by joining some sort of group. Even though most of the retailers we surveyed belong to a distribution group, many non-group members decline to.

"I can order from whoever I want, unlike some NAPA stores I have dealt with who are very set with their supplier," said Leon Bouquet. Rick Schmidt, general manager, United Auto Parts, Inc., Cupertino, CA, agreed. "The ability to purchase solely as an independent opens us up to so much more in the way of ordering."

"We are able to make quick decisions," said W. Berry Hurley, owner, W. Berry Hurley Corp., Burlington, CA. "We have more merchandise available to serve our customer better and more quickly, because we operate our own warehouse."

Even though many feel that distribution groups are not flexible, Joe York, president of Mechanics Auto Parts, Inc., Blackwood, NJ, disagrees. He said that it is an illusion that distribution groups are inflexible. A member of Auto Pride, York said said that they allow Mechanics to do what he wants while providing him with the large clout of an organization.

Planning To Survive

Walter McLaughlin has a plan in place to make sure his chain survives. His first step is simply to watch expenses. "We're trying to make sure our expenses are not getting out of proportion to the revenues we receive," he said. "We have to live within our pocket books." For example, he's looking at delivery fleet operations. "Delivery is marginal at best,'" he said. "It's very expensive."

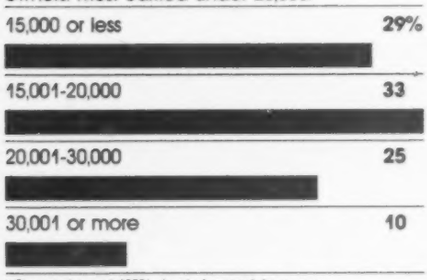
Then, there's increasing present business without necessarily expanding. "We're looking to develop more business with the customers we have," he said. "A good customer to me is a customer that gives us four or five thousand dollars a month. We're evaluating all of our accounts. We want them to be good customers, not just picking customers. We're trying to increase our profit by doing more business with our customers."

Finally he's looking for a seasonal line of credit to carry his company throught the slow winter months.

Even with all of the blurring of the traditional distribution channels in today's market, the small auto chain has survived and will continue to survive, based on flexibility, service, and people who meet local needs. ■

SKUs CARRIED IN SMALL CHAIN STORES

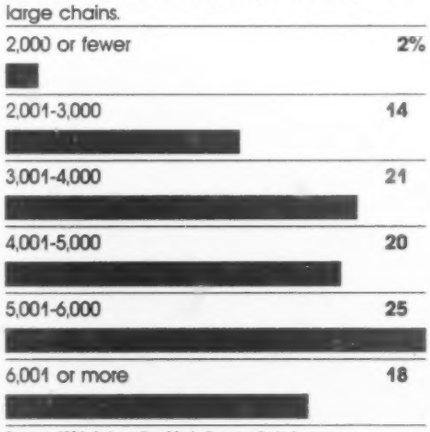
We asked how many part numbers of SKUs does your average store carry to small chain owners. Most carried under 20,000.



* Does not equal 100% due to incomplete surveys.
Source: 1991 *Automotive Marketing* small chain survey

SQUARE FEET IN THE AVERAGE STORE

We asked how many feet in the average store operated by a small chain. Most stores are still smaller than those operated by many large chains.



Source: 1991 *Automotive Marketing* small chain survey

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